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TAGS: [PHUM](#) [PGOV](#) [SOCI](#) [CH](#)  
SUBJECT: PARTY BUOYED BY GOOD SOCIAL STABILITY, BUT  
INFLATION, "BUBBLE ECONOMY" WORRISOME, CONTACTS SAY

REF: A. BEIJING 6641

[1](#)B. BEIJING 6609 AND PREVIOUS

Classified By: Political Internal Unit Chief Dan  
Kritenbrink. Reasons 1.4 (b) and (d).

#### Summary

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[1](#)1. (C) China's leadership is holding its 17th Party Congress amid a backdrop of high economic growth and rising living standards that is keeping societal unrest in check, according to sociologists and mid-level government officials with whom we recently spoke. Most contacts say that the current economic boom is simultaneously helping to maintain stability while also creating potential dangers, such as inflation and a stock and housing bubble, which could generate unrest in the future. One sociologist argued that a looming crisis over Taiwan is the only "serious threat" to China's newfound prosperity. Another contact in China's Civil Affairs Ministry, however, warned that to stave off future instability, the Party must do more to patch the social safety net, especially regarding health care. End summary.

Contacts Say China Fairly Stable At Present...

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[1](#)2. (C) Though authorities have engaged in a widespread, pre-Congress clampdown on dissent (ref A), sociologists and government officials recently have told us that the Party leadership enters the 17th Congress with increased confidence about China's overall social stability. Li Qiang (protect), Dean of the School of Humanities and Social Sciences at Tsinghua University, told Poloff October 6 that, while

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China does experience a "fair amount" of instability at the township and village level, these clashes are over tangible resources such as land and compensation to those displaced by new development. These interest disputes, though common, are very localized, Li said, and there is nothing linking these local demonstrations to any kind of national anti-government or reform movement. Beijing University Sociology Professor Ma Rong (protect) told Poloff October 9 that China is stable now thanks primarily to strong economic growth. Chinese constantly complain about the rising cost of living and the inadequacy of their salaries, Ma said, but beneath this grumbling is a recognition that living standards are rising quickly.

...But Dangers Loom If Prices Rise and Markets Fall

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13. (C) Contacts, however, described China's booming economy as simultaneously contributing to, and threatening, social stability. While agreeing that strong growth is key to keeping unrest in check, Li Qiang said inflation and the current stock/housing "bubble" now represent the greatest dangers to social stability (ref B). Chinese leaders remain very sensitive to price rises, Li said, based on China's experience with inflation prior to the 1989 Tiananmen unrest. While China's inflation rate has ticked up recently (hitting a 10-year-high of 6.5 percent in August), Li said the situation is still nowhere near as bad as it was in the late 1980s, when Beijingers rushed to buy leather jackets and television sets as inflation eroded the value of their savings. Li said a stock or housing market crash, while potentially destabilizing, is still unlikely in the near term. Japan's bubble economy lasted for a decade, Li observed, and China is only about two years into its own stock and real estate "bubble." Ma Rong, while less concerned than Li about the impact of a stock market crash on overall stability, said a sharp downturn in the market will hit pensioners hard. So many retirees now have all of their savings in stocks, Ma warned, that a crash would create an army of destitute pensioners.

#### Rural Areas Benefiting From Migration, Remittances

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14. (C) Contacts we spoke with prior to the Party Congress opening generally believed urban, rather than rural, unrest is the greater danger to social stability. Ma Rong commented that while an income gap between urban and rural areas remains, remittances and continued migration to cities function as an effective

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safety valve. Money sent home by migrant workers is allowing urban growth to trickle down to the countryside, Ma argued, and is keeping discontent in check. In 2005, Ma conducted a survey of 900 rural residents of Inner Mongolia. The poll revealed that 80 percent of these farmers have a close relative working in the cities and 50 percent own a motorcycle, thanks largely to remittances.

#### Managing Urban Problems Key to Stable China

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15. (C) The satisfaction of the urban middle class, Li Qiang said, will be the key factor in China's future stability. Li, however, added that deepening social stratification in urban China continues to worry the leadership. Mou Guangfeng (protect), a Director General-level official in the State Environmental Protection Administration, told Poloff that environmental degradation means urban quality of life is not rising as fast as straight economic statistics would indicate. Urban middle-class residents are increasingly dissatisfied with pollution and, as shown by mass demonstrations this past June in Xiamen against a proposed chemical plant, more willing to challenge government decisions. Beyond environmental degradation, Mou said he is personally concerned with the growing underclass of migrant workers in China's cities. Reform of the household registry ("hukou") system, Mou commented, which would allow newcomers to enjoy the same social services as long-term city residents, is the "most important" challenge that will face the new leadership elected at the 17th Party Congress.

#### The Taiwan Wildcard

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¶6. (C) Ma Rong, who was generally the most optimistic among our contacts, said a Taiwan crisis is the only potential problem that could halt the virtuous cycle of high growth, rising living standards and a stable society. A "large segment" of the Chinese leadership feels military action will be eventually necessary to prevent Taiwan independence, Ma claimed, stating that the majority of Chinese would support such a move. Taiwan is one of the few issues where economics takes a back seat in government decision making, Ma asserted.

#### China Decades Away From Adequate Social Safety Net

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¶7. (C) Zou Xueying (protect), a director at the Ministry of Social Affairs' cadre training school, generally agreed with other contacts that, despite serious income gaps, China is enjoying good overall stability. Zou, however, commented that China's social welfare system remains inadequate and a failure to make changes now may create difficulties for the regime down the road. The failure of health care reform, and the vast number of Chinese, particularly those in the private sector, who lack health insurance, is China's greatest societal problem, Zou said. Zou predicted, however, that fixing health care, meaning giving all citizens access to basic care, will take decades because of the huge expenses involved. By contrast, the Chinese government is having more success boosting monthly income subsidies for the poor and unemployed, primarily because only a limited number of Chinese qualify and the expense is much less than to expand health coverage

#### Comment

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¶8. (C) Our contacts quoted here are themselves successful members of Beijing's middle class who have seen their standard of living increase dramatically in the last decade. Undeniably times are good for this group, but they still see a wide array of challenges ahead, including prices, the environment, health care, pensions, migration and household registry reform. All view bread-and-butter issues, not ideological legitimacy or political reform, as the main hurdles that lay before China's post-17th Party Congress leadership.

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